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October 29, 1996

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FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF SECRETARY

Mr. William F. Caton  
Acting Secretary  
Federal Communications Commission  
1919 M Street, N.W. Room 222  
Washington, D.C. 20554

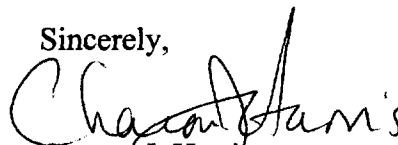
**EX PARTE: Federal-State Joint Board on Universal Service**  
**CC Docket No. 96-45**

Dear Mr. Caton:

On October 8, 1996, representatives of GTE Service Corporation and Mitch Wilk of Wilk & Associates met with Commissioner Rachelle B. Chong and Daniel Gonzales and Tony Dale of her office to discuss GTE's auction proposal in the captioned proceeding. GTE relied on the attached materials in its presentation.

Please call me if you have any questions regarding this matter.

Sincerely,

  
Charon J. Harris

cc: Federal State Joint Board Commissioners and Staff  
T. Dale  
J. Morabito

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## **Universal Service**



### **1996 Telecom Act Objectives**

- *"preserve and advance"*
- *"specific, predictable and sufficient"*
- *"multiple carriers"*

### **Markets vs. Regulation**

- *Markets provide better economic entry signals*
- *Do what no proxy model can do - determine market price*
- *Long-term flexibility and adaptability*
  - *Service definition, technology, changed obligations*

### **Competitive Bidding as Market**

- *Balances size of fund against number of competitors*
  - *Higher support = more entrants*
- *Optimizes competition "in" and "for" market*

### **Actual Cost to Start**

- *Compatible with Act - "preserve" and "sufficient"*
  - *TSLRIC/TELRIC is not*
- *Same costs/investment involved on "Day 1" as are today*
- *Permits initial recovery of all explicit universal service costs*
- *Entry incentives*

### **Size of Fund**

- *Same as today in explicit & implicit terms*
- *Constrained/reduced by competitive bidding*

# GTE Universal Service Proposal

## Auction Process

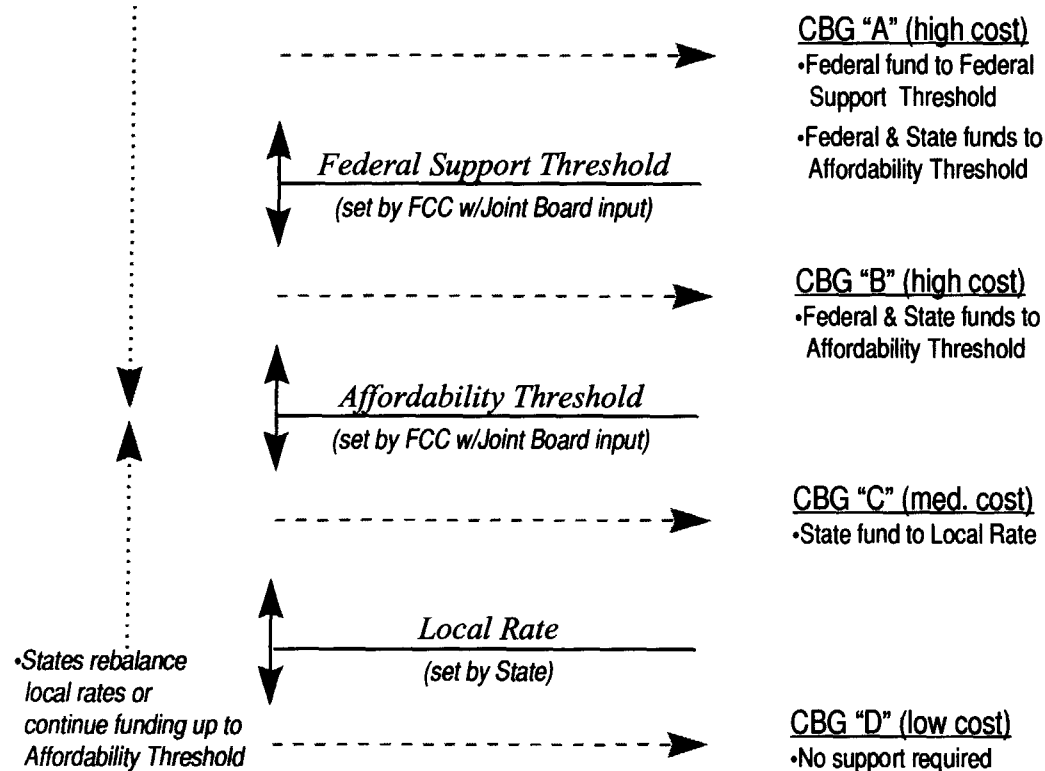
- CLEC petitions state to hold auction for selected CBG(s)
- State qualifies bidders
- State holds auctions twice yearly
- State establishes maximum support rate
- Carriers within certain percent of lowest bid become COLRs
- Highest winning bid determines level of support for COLRs
- Winners have COLR obligations for set period (3-5 years)

## Census Block Groups (CBGs)

High Cost	High Cost
Med. Cost	Low Cost

## Support Mechanism

- Market forces bid down amount of support over time



- States rebalance local rates or continue funding up to Affordability Threshold

- Two thresholds give FCC/States greater control over size & distribution of funds

- Actual costs distributed among CBGs help assure "explicit and sufficient" universal service support

# GTE UNIVERSAL SERVICE PROPOSAL

## ◆ Outline ◆

### ◆ PURPOSE:

GTE's universal service proposal is designed to provide explicit support to carriers wherever necessary to support affordable rates and to low-income customers throughout the country, provide competing carriers access to high-cost funding on equivalent terms, and replace regulation with a sustainable and fair market mechanism.

### ◆ ESSENTIAL COMPONENTS:

#### *I. Carrier Obligations*

##### *A. Core Service Obligation*

Carriers must offer to any customer within a service area a technology-neutral basic service package, which would consist of:

1. Residence voice grade access to the network that provides the ability to place and receive calls, and access to long distance carriers of the customer's choice
2. Touch-tone service
3. Single-party service
4. Access to operator services and directory assistance
5. Access to emergency services (E911)
6. Standard white pages directory listing

##### *B. Carrier of Last Resort (COLR) Obligation*

Any carrier receiving high-cost support must be designated by that state as being a Carrier of Last Resort. Obligations established by each state, under broad federal guidelines, would include:

1. Provide the basic service package to any residence customer in a service area at a rate no higher than a state-established ceiling
2. Meet state qualifications
3. Meet minimum service quality standards adopted by state
4. Provide for interconnection and equal access
5. Make services available for resale at reasonable rates.

#### *II. Plan Thresholds and Geographic Boundaries*

##### *A. Affordability Threshold*

Joint Board and FCC should establish a monthly rate threshold for the basic service package, while the costs above the Affordability Threshold to provide such service would be considered high cost and funded by federal and state funds.

*B. Federal Support Threshold and State Fund*

The FCC, with advice from the Joint Board, should establish a monthly Federal Support Threshold (greater than the Affordability Threshold) above which the costs of providing the basic service package would be covered entirely by the federal jurisdiction. A combination of the state and federal funds would cover the difference between the Federal Support Threshold and the Affordability Threshold.

*C. Affordability Transition*

States should transition local service rates for the basic service package up to the Affordability Threshold or cost, whichever is less, or create independent state mechanisms under Section 254(f) to hold prices below that threshold.

*D. Bidding/Geographic Area*

For the geographic area in which eligible COLRs will assume their obligations and receive high-cost funding assistance, GTE recommends using census block groups (CBGs). CBGs can be subdivided when necessary to accommodate existing service areas.

*III. Support Calculation/Distribution*

*Day 1*

1. Incumbent LECs' actual costs of providing basic service package assigned directly or distributed by a cost model to serving areas.
2. Funding provided to LECs for each customer served based on the difference between the per customer actual cost within a CBG and the rate ceiling.

*Day 2<sup>+</sup>*

1. Entrants notify the state of intent to bid for carrier of last resort duties and funding.
2. Competitive bidding conducted for each bidding area for which an intent to bid is submitted.
3. Bids would be the amount of per-customer monthly support required by the submitting carrier.
4. Funding provided to all carriers selected through the bidding process.

*IV. Distribution of Funding*

*Day 1:*

1. To any eligible carrier successfully bidding to provide service as a COLR for each subscriber who chooses that carrier.
2. To any carrier serving individuals eligible for income-based support.

*Day 2<sup>+</sup>:*

1. For each subscriber, to any eligible carrier successfully bidding to provide service as a carrier of last resort.
2. To any carrier serving individuals eligible for income-based support.

## V. Funding Sources

### *A. Federal Contribution to High-Cost Funding*

Uniform surcharge on interstate and intrastate telecom retail revenue of interstate service providers.

### *B. State Contribution to High-Cost Funding*

Competitively-neutral state sources, such as surcharge on in-state (originating and terminating traffic) telecom retail revenue of intrastate service providers.

### *C. Income-based Support Funding*

Uniform surcharge on interstate telecom retail revenue of service providers. For federal Lifeline program, each state may adopt its own income-based support program.

## VI. Offsetting Rate Reductions

Incumbent LECs reduce current rates bearing implicit support by amounts equal to the new explicit support. Result is revenue-neutral implementation of a new explicit support mechanism. This corrects price distortions in other markets caused by the need to support local service.

## VII. Auction Mechanism

### *A. Notification Procedure*

States conduct auctions twice each year, initially. Carriers may notify states 90 days in advance of each auction date as to which bidding areas they intend to bid.

### *B. Auction Design Principles*

Create a competitive situation which will encourage aggressive bidding, and permit multiple service providers in high-cost areas.

### *C. Auction Objectives*

1. Promote greatest possible benefits from competition.
2. Promote efficient provision of service at minimum cost.

### *D. Auction Mechanism*

1. Single round, sealed bid.
2. Winners are those who bid within a certain percentage of the winning bid. More bids are accepted if bidding range is narrow; fewer are accepted if bids are far apart.
3. Support provided equal to the highest of the winning bids.
4. Winning bidders in the initial auction for a service area will bear COLR obligations for three years; in subsequent auctions, COLR obligations will extend for five years.
5. All bidders, and the incumbent LEC, may withdraw after results of the auction are disclosed, subject to financial penalty.
6. At least two bidders are required to hold an auction. If fewer than two bids remain after withdrawal, the auction will be canceled and support will be provided to the incumbent at Day 1 levels.